

Message Text

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PAGE 01 LONDON 07750 180611Z
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TREASURY FOR R. HARLOW, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: TECHNICAL NOTES ON THE TRADE SURPLUS

SUMMARY: WHAT FOLLOWS IS AN IMMEDIATE EVALUATION OF RE-
CENTLY PUBLISHED DATA. IT MAY BE OF INTEREST TO FORE-
CASTERS IN WASHINGTON WHO FOLLOW THE UKBALANCE OF PAY-
MENTS. IT IS NOT COMPOSED FOR THE GENERAL READER.

1. THE UK RECORDED A RECORD CURRENT ACCOUNT SURPLUS DUR-
ING APRIL. (SEE LONDON 7662.) THE NEWS APPEARED HOWEVER
TO HAVE ONLY A TEMPORARY EFFECT ON FINANCIAL MARKETS, AS
MARKET ANALYSTS AND THE PRESS EMPHASIZED THE ERRATIC NA-
TURE OF THE MONTHLY TRADE STATISTICS. IT HAS BEEN POINT-
ED OUT THAT ABOUT 205 MILLION POUNDS OF THE IMPROVEMENT
FROM MARCH'S DEFICIT CAN BE ATTRIBUTABLE TO THE ERRATIC
ITEMS OF DIAMONDS, SHIP, AIRCRAFT AND OIL -- DIAMONDS
ALONE CONTRIBUTING 120 MILLION POUNDS. OVERSEAS TRADE
STATISTICS SHOWED THAT WHEREAS INDUSTRIAL MATERIALS IM-
PORT VOLUME HAD GROWN 7.5 PERCENT IN MARCH, IT FELL 13.8
PERCENT IN APRIL, BUTTRESSING SOME ANALYSTS' BELIEF THAT
UNCLASSIFIED

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PAGE 02 LONDON 07750 180611Z

STOCKPILING IRREGULARITIES LAY BEHIND THE MOVEMENT IN
THE TRADE STATISTICS.

2. THERE IS NO DOUBT THAT MONTHLY TRADE STATISTICS SEEM
TO SUFFER SPASMODIC TWITCHING. DURING THE PAST TEN
MONTHS, THE VOLUME OF EXPORTS HAS DESCRIBED A NEGLIGIBLE
TREND, WHOSE STANDARD ERROR OF ESTIMATE IS 4.1 PERCENT

PER MONTH. OVER THE SAME PERIOD, THE IMPORT VOLUME TREND HAS BEEN 0.5 PERCENT PER MONTH, WITH STANDARD ERROR OF ESTIMATE OF 4.8 PERCENT PER MONTH. (EXPORTS APPEAR, HOWEVER, TO HAVE DESCRIBED A CONCAVE UPWARD CURVE OVER THE PERIOD.)

3. THE UNDERLYING FACTORS THAT GENERATE THIS INSTABILITY ARE NOT KNOWN. BOTH GOVERNMENT AND MARKET ANALYSTS HAVE REMARKED ON THE DIFFICULTY OF RECONCILING DATA DERIVED FROM CUSTOMS DATA TO A BALANCE OF PAYMENTS BASIS AND ON THE INADEQUACY OF SEASONAL ADJUSTMENT TECHNIQUES. (FAULTY SEASONAL ADJUSTMENT IS ALLEGED TO BE AT THE BOTTOM OF RECENT REVISIONS IN THE M3 STATISTICS.)

4. AT THE SAME TIME THERE IS SOME FORCE TO THE ARGUMENT THAT STOCKPILING CHANGES MAY CONTRIBUTE TO SWINGS IN THE TRADE DATA. WHEN CAPITAL (OR STORABLE) GOODS ARE IMPORTED, THE EURLER EQUATIONS SUGGEST THAT THE RATE OF GROWTH OF IMPORTS OF THE GOODS WILL DEPEND POSITIVELY ON ANTICIPATED APPRECIATION IN THEIR FOREIGN CURRENCY PRICES. IF THERE ARE RAPID CHANGES IN SENTIMENT IN THE FOREIGN EXCHANGE MARKET, IT IS NOT SURPRISING THAT THERE ARE SHARP CHANGES IN IMPORTS AS WELL. THIS SHOULD BE PARTICULARLY EVIDENT IN A COUNTRY WHERE EXCHANGE CONTROL LAWS MAY ENCOURAGE PORTFOLIO ADJUSTMENTS THROUGH THE TRADE ACCOUNTS. DURING THE FIRST HALF OF THIS YEAR, IN FACT, MARKET SOURCES HAVE DESCRIBED EXPECTATIONS OF A DECLINE IN STERLING OVER PERHAPS A YEAR. THE MAJOR PRESSURE IN THE CAP-
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PAGE 03 LONDON 07750 180611Z

ITAL ACCOUNTS IS THOUGHT TO HAVE ARISEN FROM LEADS AND LAGS OF TRADE PAYMENTS. THERE ARE, HOWEVER, NO EMPIRICAL STUDIES OF UK TRADE DIRECTLY APPLICABLE TO THESE POINTS.

5. IN SPITE OF THE APRIL SURPLUS, TWO MAJOR NEWSPAPERS RAN EDITORIALS POINTING TO FUNDAMENTAL STRUCTURAL DIFFICULTIES IN THE UK TRADE ACCOUNT. THESE INCLUDED LONG-STANDING EXPORTER PROBLEMS OF DELIVERY AND DESIGN, AND PARALLEL PROBLEMS FOR DOMESTIC MANUFACTURERS WHICH ARE THOUGHT TO HAVE SIGNIFICANTLY RAISED THE MARGINAL PROPENSITY TO IMPORT CONSUMER GOODS. THE EDITORIALS ANTICIPATED THAT STRONG GROWTH IN CONSUMER EXPENDITURE IN THE SECOND HALF OF 1978 WOULD RESULT IN A SUBSTANTIAL RISE IN IMPORTS IN THAT PERIOD.

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